

Message Text

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PAGE 01 ISLAMA 03684 131248Z
ACTION XMB-04

INFO OCT-01 NEA-10 ISO-00 EB-08 MCE-00 DOTE-00 DODE-00
L-03 AID-05 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00
TRSE-00 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 INRE-00
SSO-00 ICAE-00 /055 W
-----120916 131254Z /46
O 131210Z APR 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 6730

LIMITED OFFICIAL USE ISLAMABAD 3684

E.O. 11652: N/A
TAGS: EGEN, PK
SUBJECT: EXIM FINANCING OF PURCHASE OF 747S BY PIA

REF: ISLAMABAD 2166

1. ON TUESDAY, APRIL 11, GOP SECRETARY ECONOMIC AFFAIRS
DIVISION, AFTAB AHMED KHAN, RAISED THE SUBJECT AT A
MEETING WITH ACTING AID DIRECTOR HANDLY AND AID/WASHINGTON
PAKISTAN/NEPAL OFFICE DIRECTOR GEORGE.

2. AFTAB STATED THAT NEGOTIATIONS WERE PRESENTLY GOING
ON IN WASHINGTON WITH EXIM ON PURCHASE OF BOEING 747S
FOR PIA. HE SAID EXIM HAD INSISTED ON PROVISION THAT
TRANSACTION WOULD NOT BE SUBJECT TO DEBT RESCHEDULING
EFFORT BY GOP AND THAT GOP HAD CONCURRED. EXIM HAD
ALSO INSISTED UPON FULL GOVERNMENT GUARANTEE OF THE
LOAN AND GOP HAD ALSO AGREED TO THIS PROVISION. AFTAB
REPORTED THAT EXIM HAD ALSO INSISTED THAT AN "ESCROW"
ACCOUNT OUTSIDE THE COUNTRY BE ESTABLISHED AND THAT
THIS PROVISION WAS NOT ACCEPTABLE.

3. AFTAB REQUESTED EMBASSY/AID ASSISTANCE ON THIS QUESTION.
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HE SAID THE GOP HAD NEVER PROVIDED AN ESCROW ACCOUNT FOR
SIMILAR TRANSACTIONS AND CONSIDERED EXIM INSISTENCE ON THIS
AS BELITTLING THE COUNTRY AND TREATING THE GOP AS A NON-
RESPONSIBLE DEBTOR. HE ALSO STATED THAT GOP AGREEMENT TO
SUCH A PROVISION WOULD RESULT IN ALL OTHER CREDITORS
REQUIRING SIMILAR PROVISIONS WHICH WOULD BE INAPPROPRIATE
FOR PAKISTAN.

4. THIS MATTER WAS AGAIN RAISED WEDNESDAY EVENING, APRIL 12, BY AFTAB IN DISCUSSION WITH THE AMBASSADOR AND ACTING DIRECTOR HANDLY, WITH THE URGENT REQUEST THAT HIS VIEWS BE COMMUNICATED TO WASHINGTON AND TO EXIM. AFTAB ADVISED THAT HE PERSONALLY KEPT OUT OF SPECIFIC NEGOTIATIONS BUT KNEW THAT PIA PREFERRED 747S. HE NOTED THAT FRENCH OFFER ON AIRBUS CARRIED NO SUCH ONEROUS REQUIREMENT FOR AN ESCROW ACCOUNT AND THAT HE WAS PREPARED TO RECOMMEND PIA PROCUREMENT OF ALTERNATIVE AIRCRAFT IF EXIM COULD NOT WAIVE ESCROW ACCOUNT REQUIREMENT.

5. WHEN THE EMBASSY FIRST RAISED THE ISSUE WITH THE GOP (REFTEL), THERE APPEARED TO BE NO PROBLEM IN PRINCIPLE. HOWEVER, AFTAB OBVIOUSLY FEELS QUITE STRONGLY ABOUT THE INAPPROPRIATENESS OF THE FOREIGN ACCOUNTS PROVISION FOR PAKISTAN.

6. IT WOULD SEEM TO US THAT THE GOVERNMENT GUARANTEE AND THE GOP AGREEMENT TO THE PROVISION ON DEFAULT IN EVENT OF RESCHEDULING SHOULD BE ENOUGH TO ALLOW THE LOAN TO GO THROUGH. WHILE WE DO NOT KNOW THE PRECISE TERMS OF THE OVERSEAS FOREIGN EXCHANGE ACCOUNT, EXIM IS REQUESTING, WE WONDER WHETHER THE CONCEPT PROVIDES SUFFICIENT ADDITIONAL SECURITY BEYOND GOP GUARANTEES TO WARRANT POSSIBLE LOSS LIMITED OFFICIAL USE

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OF THE SALE AND OBVIOUS OFFENSE TO THE GOP. WE BELIEVE IT IS IN OUR INTEREST, BOTH COMMERCIAL AND FOREIGN POLICY, TO BE SYMPATHETIC ON THIS ONE AND WE URGE THE AGENCIES CONCERNED TO FIND A SATISFACTORY WAY OUT. HUMMEL

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PROCUREMENT, COMMERCIAL AIRCRAFT, FINANCIAL CONTRIBUTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ISLAMA03684
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: UPGRADED PER MEMO FROM CLAYTON E MCMANAWAY TO WILLIAM PRICE P820102-1084
Executive Order: R1 19840413 MCMANAWAY, C
Errors: N/A
Expiration:
Film Number: P820102-1085, D780159-0141
Format: TEL
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780462/aaaacafj.tel
Line Count: 99
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 11f739b1-c288-dd11-92da-001cc4696bcc
Office: ACTION XMB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: UNCLASSIFIED
Original Previous Handling Restrictions: LOU
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LOU
Reference: 78 ISLAMABAD 2166
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2983951
Secure: OPEN
Status: NATIVE
Subject: EXIM FINANCING OF PURCHASE OF 747S BY PIA
TAGS: EGEN, PK, PIA, XMB
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/11f739b1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014